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SUBJECT: SCENESETTER FOR CODEL COLEMAN

#### Introduction

1. Your November 23 - 24 visit will afford you a chance to view adoptions processes and practices in Guatemala. You

will also have the opportunity to review our efforts to promote economic development, poverty alleviation, democracy, and rule of law, following the 1996 signing of the Peace Accords, which put an end to the 36-year armed internal conflict. The United States and Guatemala enjoy a cordial bilateral relationship, and all indications are that that will continue to be the case under President-Elect Colom, who will take office in January.

#### Adoptions

2. Guatemala is the second-largest source for babies adopted by American parents, after China. Americans adopted over 4,500 babies here in FY2007, and the number increases every year. The vast majority of adoptions are relinquishment cases, in which a sole parent voluntarily waives all parental rights. Legislation that would bring Guatemala into compliance with the Hague Convention on International Adoptions is pending before Congress, and may be passed this year. Since the U.S. will become Hague-compliant on April 1, 2008, it is important that Guatemala approve its own Hague-implementing legislation this year, in order to permit continuation of adoptions to the U.S. Hague compliance will ensure that the system provides safeguards for both the children and the prospective parents.

#### Democratic Progress

3. The United States and Guatemala have historically enjoyed good relations. The United States is Guatemala's largest trade partner, foreign investor, and assistance donor. The United States is home to more than one million Guatemalans -- most of whom are there illegally -- who this year will send back to Guatemala over \$4 billion in remittances (equal to 12% of GDP). In 2007, DHS deported more than 20,000 illegal Guatemalan immigrants, and U.S. immigration reform is a topic of major interest here.

4. Trade and investment ties strengthened when CAFTA came into force one-and-a-half years ago. Two-way trade has increased 8.4%, and foreign direct investment has tripled. GDP growth for 2007 is forecast at 5.6%, and year-on-year inflation is 7.7%, due mostly to increasing oil and food prices. Guatemala's conservative fiscal policy, with deficits averaging only 1.5% of GDP, has resulted in public sector debt that is among the lowest in the region. Guatemala is working hard to qualify for a compact with the Millennium Challenge Corporation.

5. Guatemala returned to democracy in 1986, and ten years later signed the Peace Accords that ended 36 years of internal armed conflict. Tens of thousands of persons were killed (including U.S. Ambassador John Mein, assassinated by Marxist guerrillas in 1968). The chronically under-funded

state is weak but trying to contend with enormous social problems. According to the World Bank, Guatemala has one of the most unequal income distributions in the hemisphere, and a poverty rate of 51%.

¶16. On November 4, Alvaro Colom of the National Union for Hope (UNE) Party won a runoff presidential election against retired General Otto Perez Molina, with 52.8% of the vote. His inauguration is scheduled for January 14. Colom, who defines himself as a Social Democrat, is a successful businessman whose vocation for addressing Guatemala's pressing problems of pervasive poverty and the social exclusion of the large indigenous population led him to get into politics. Despite his upper-middle class background, he has extensive experience with indigenous communities and rural development. He seeks to continue Guatemala's good relations with the United States, and has kept a distance from Latin American leaders such as Venezuela's Hugo Chavez and Cuba's Fidel Castro. Colom's UNE has more seats in Guatemala's fractured Congress than any other party, but is nonetheless short of a majority. Striking alliances with opposition parties will therefore be key to advancing the government's agenda.

#### Berger Leaving a Promising Legacy

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¶17. The Berger Government is working hard to ensure a successful transition to the new Colom administration. The incoming and outgoing administrations are committed to ensuring that successful initiatives, such as tax reform and sound macro-economic management, are not interrupted by the transition. President Oscar Berger took office in January 2004, elected by a center-right coalition (GANA). A former businessman and Mayor of Guatemala City, President Berger brought to his administration a cadre of respected and proven leaders with credibility and integrity. The Berger Administration has advanced a broad set of reforms that have improved transparency and accountability, spurred economic growth, increased investment in education and health, advanced public administration reform, and secured vital legislation necessary for more effective administration of justice. These achievements reflect the Administration's success in building political momentum for reform among civil society, the private sector, and even among disparate political parties.

¶18. Despite the Berger Administration's progress on many other fronts, the security situation remains critical. Gangs and narcotraffickers are responsible for much of the current crime wave, and Guatemala remains a major conduit for northbound cocaine and heroin. The National Police are widely viewed as corrupt and ineffective; citizens at times take the law into their own hands. In order to combat organized crime and official complicity and corruption, the Congress approved installation of the UN's International Commission Against Impunity in Guatemala (CICIG). CICIG's international prosecutors and investigators will buttress weak security organizations. The Army, which most Guatemalans hold in relatively good regard, revamped its doctrine to emphasize respect for human rights, external threats and international peacekeeping. Guatemala has been a reliable partner in UN peacekeeping missions, maintaining troops in Haiti and Congo, and operating a school for Central American peacekeeping forces. U.S. security assistance to the Guatemalan military remains limited, however, since bans on FMF and IMET imposed in 1990 remain in place.

Derham